Market Commentary
Second Quarter 2018

PICTON MAHONEY
Asset Management

Synergy Global Corporate Class

While the MSCI All World Equity Index ended the quarter slightly higher than it began, it masked some of the turbulence that permeated over the past three months. The formulation of the populist government in Italy renewed fears about the fragility of the union in the Eurozone, resulting in a selloff of Italian sovereign debt and forcing Italian equities to give up all of their year-to-date gains.

In the meantime, the U.S.'s increasingly tough talk on trade sparked worries about the cost of protectionism. Some of these worries have translated into a softening in credit demand and delay in investments, especially outside of the U.S. While the data still points to economic expansion in most countries, global synchronized growth may be decoupling somewhat.

Given this dynamic, we have seen a relative softening in tones out of the European Central Bank at a time when the U.S. Federal Reserve Board (Fed) continues to increase rates. The resulting strength in the U.S. dollar has become a bigger theme in Q2 with investors refocusing on U.S. dollar exporters that will benefit from this move and domestic focus companies that may be negatively impacted from higher input prices and/or a slowdown in the local economy.

For the last quarter ended June 30, 2018, Synergy Global Corporate Class returned 2.2%. Our underweight positioning in energy and overweight positioning in financials detracted from relative performance. The largest individual detractors were Deutsche Lufthansa and Azul. Our underweight positioning in telecommunication services and consumer staples added to performance. Top-performing holdings were Greencore Group and UnitedHealth Group.

As noted above, the intent of the Fed to continue hiking interest rates is causing discomfort for many economies whose growth is far less robust. These growth divergences also hinge on a strengthening U.S. dollar, which poses its own risks – notably for emerging markets and economies sensitive to consumption of goods priced in U.S. dollars (i.e., commodity-centric economies).

Overall, the rise of populism (in its various permutations globally) brings with it risks of heightened protectionism and a likely shift away from globalization, which has been a powerful underpinning to global growth for many years. As such, we continue to focus on portfolio construction, whereby risk management and active share (i.e., differentiating from the benchmark) should add value.

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Class F Returns (in %) as at June 30, 2018	Year-to-date	1 year	3 year	5 year	10 year
Synergy Global Corporate Class	3.2	10.5	7.2	13.2	7.4